

Office of the
Legislative Fiscal Analyst

FY 2002 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Division of Information Technology Services
Internal Service Fund

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1.0 Summary: Division of Information Technology Services Internal Service Fund

The Division of Information Technology Services (ITS) within the Department of Administrative Services is required to provide cost effective and reliable data processing and communication service to all agencies of state government as well as various local entities.

	Analyst FY 2002 Base	Analyst FY 2002 Changes	Analyst FY 2002 Total
Financing			
Federal Funds	750,000		750,000
Dedicated Credits - Intragovernmental Re	51,542,600		51,542,600
Transfers	376,600		376,600
Total	\$52,669,200	\$0	\$52,669,200
Programs			
ISF - Network Services	10,152,700		10,152,700
ISF - Telephone Services	16,380,100		16,380,100
ISF - Radio Shop	2,034,800		2,034,800
ISF - Computing	18,031,600		18,031,600
ISF - ITS Support Services	4,374,000		4,374,000
ISF - New Technologies	224,800		224,800
ISF - Automated Geographic Ref Ctr	1,471,200		1,471,200
Total	\$52,669,200	\$0	\$52,669,200
FTE/Other			
Total FTE	242	1	243
Authorized Capital Outlay	5,904,800	(1,421,000)	4,483,800
Retained Earnings	13,914,500		13,914,500
Vehicles	28		28

ITS' data processing services include software licensing and development, central computing, wide area network connectivity, and consultation. Its telecommunications services include negotiating the purchase, lease or rental of private or public telecommunications services, and operating the State's network of microwave sites. ITS has authority to establish rates and collect fees for these services.

2.0 Issues: Division of Information Technology Services Internal Service Fund

2.1 Excess Capital Outlay Authority

In each of the past four years, ITS has requested as much as 46% more capital outlay authority than it actually needed. This excess authority could result in unnecessary capital expenditures and therefore inflated rates. The Analyst recommends reducing ITS' Authorized Capital Outlay request by 20% for FY 2002. (See page 5.)

2.2 ITS Perceived As Monopoly

Many state agencies perceive ITS as the State's only option for provision of information technology related services. As such, they either are reluctant to express their dissatisfaction with rates, or their dissatisfaction with rates is discounted by ITS. The Analyst recommends the Department of Administrative Services establish a method by which customer agencies communicate market-like signals to internal service funds, including ITS. (See page 5.)

2.3 Video Conferencing Losses

ITS instituted the Video Conferencing cost center as a "new technology" in FY 1999. Since that time it has yet to break even and will incur, according to ITS projections, over \$1 million in losses by the end of FY 2002. Current network utilization is a mere 2%. The Analyst recommends ITS freeze its capital acquisition for this cost center until such time as the system begins to recover its total costs. (See page 18.)

2.4 AGRC Operating Revenue

Since 1993, the Automated Geographic Reference Center (AGRC) has operated as a pseudo internal service fund, with General Fund appropriations augmenting Federal grants, dedicated credits revenue, and transfers from other Internal Service Funds. The FY 2000 Appropriations Bill included intent language directing the AGRC to study future funding options to clarify its status as either an internal service fund or an appropriated function. As a result of that study, should additional resources become available, the Analyst would recommend AGRC be treated as an appropriated entity within the Division of Information Technology Services. (See page 21.)

2.5 Response to Intent Language

The Legislature included several pieces of intent language regarding ITS in the FY 2001 *Annual Appropriations Act*. Responses to such language are included at pages 9, 13, 16, and 21

3.0 Programs: Division of Information Technology Services Internal Service Fund

Recommendation

The Analyst recommends the Legislature approve \$4,483,800 in capital outlay for the Division of Information Technology. This reflects a reduction of 20%, the average difference between authorized and actual capital outlay for the past four years. It also reflects the elimination of capital outlay authority for the New Technologies functional area as noted on page 18.

The *Budgetary Procedures Act* (Utah Code 63-38-3.5(5)) directs internal service funds to “separately identify the capital needs and the related capital budget” associated with a budget request. The Legislature approves a capital outlay amount based on this capital budget in the annual appropriations act. The approved capital outlay amount then presumably caps an ISF’s capital expenditures for a given fiscal year.

Capital “wish list” does not reflect fiscal reality

As the table below indicates, ITS requested more in its capital budget than it actually expended for each of the past four years. This suggests that the capital budget is more a “wish list” than a fiscally constrained acquisition plan.

ITS Capital Outlay Approved vs. Actual			
	Authorized	Actual	Difference
FY 1997	\$12,405,900	\$11,201,700	10%
FY 1998	\$7,352,200	\$3,968,600	46%
FY 1999	\$8,053,200	\$5,567,700	31%
FY 2000	\$6,164,000	\$5,247,200	15%

By approving an overstated capital outlay amount, the Legislature runs the risk of allowing ITS to purchase equipment beyond what it really needs, thus inflating expenses and rates charged to other agencies.

Approve 80% of request for FY 2002

Therefore, the Analyst recommends the Legislature approve only 80% of ITS’ capital outlay amount for FY 2002. Detail on capital outlay for each functional area follows.

Recommendation

The Analyst recommends ITS post its billings on-line through the “Inner Web”, and create a web application by which bill payment is reviewed and approved by managers rather than assumed as accurate by all parties.

Under current practice, ITS sends multiple page paper billing detail to its customers each month. The bills consume an enormous amount of paper, yet do not require action by recipients.

Given the advent of the Internet and development of the State's Intranet – “InnerWeb” – the Analyst believes ITS could save printing costs by posting bills on-line. Beyond saving trees, the on-line system could provide ITS valuable feedback on customer willingness to pay and comparable private sector prices.

ISFs insulated from market forces

While internal service funds were intentionally created to leverage economies of scale in certain administrative functions, they are not monopolies. Front-line managers in customer agencies should provide feedback that ISFs can use in making investment and service decisions. Competition from private providers should further influence ISF practices. However, under the current rubric, there is no mechanism by which these market forces impact ITS or any other internal service fund.

Currently, ISF rates are set to recover cost of operation. Those costs are based on a predetermined level of investment and service. As noted above, capital investment levels may be inflated. In many cases these rates are established without regard to private sector alternatives.

ITS WAN charges as much as double that of DSL

For example, the ITS Wide Area Network rate is \$31 per device per month. In the Analyst's experience, this is equivalent to about six cents per kilobit-per-second, compared with about three cents per kilobit-per-second through a privately provided digital subscriber line (DSL) connection. Further, the ITS rate is paid on every network node, so a printer and a computer on the same network are each assessed the full fee. This is not true of private providers.

Why are the ITS rates so high? The rate not only pays for a customer's access to the State's wide area network and the Internet, it covers the cost of ITS Web Page hosting, security, and other ancillary activities. The many agencies that host their own web pages or provide their own security on their own equipment therefore pay twice.

In other cases, ITS charges agencies the equivalent of market rate plus some mark-up. For example, a residential line purchased by ITS for telecommuting costs market rate plus 10%; international and credit card long distance costs agencies market rate plus 10%, as does local long distance.

What is most disturbing to the Analyst regarding this process is that customers have no mechanism by which to contest charges, and therefore no incentive to even review them let alone compare them to the private sector alternatives. Internal Service Fund charges are automatically deducted from agency accounts whether managers agree with them or not.

Require managers to review and approve charges

The Analyst recommends the Department of Administrative Services and ITS investigate an Intranet based application that requires customers to review bills on-line and approve payment before charges are deducted from customer accounts. Further, the Analyst recommends the application include an option for customers to contest charges they believe are unwanted or unwarranted. Should the subcommittee desire, the Analyst will draft intent language formalizing this recommendation.

It is not the intent of the Analyst to jeopardize economies of scale by motivating state agencies to secure individual contracts from private sector providers. Instead, the Analyst believes that market signals provided through customer feedback can help ITS adjust its business operations so that it better serves customers at lower cost. That said, if a strong case for leaving ITS can be made by an individual agency, and such transaction does not negatively impact the State's IT costs as a whole, it should be carefully considered.

3.1 Administration & Finance

Recommendation

The Analyst recommends FY 2002 expenses of \$1,649,700 for Administration and Finance, to be distributed proportionally among other functional areas within the Division. The Analyst also recommends twenty-seven full time equivalent (FTE) positions for this functional area, a decrease of three FTE from FY 2001 Authorized.

Financing	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Total	\$0	\$0	\$0	\$0
Expenditures				
Personal Services	1,544,800	1,071,000	1,072,600	1,600
In-State Travel	1,600	49,000	49,000	
Out of State Travel	6,300	131,500	131,500	
Current Expense	330,700	245,900	245,900	
DP Current Expense	204,000	145,700	145,700	
DP Capital Outlay	17,500	7,900	5,000	(2,900)
Other Charges/Pass Thru	(2,104,900)	(1,651,000)	(1,649,700)	1,300
Total	\$0	\$0	\$0	\$0
Net Operating Income	\$0	\$0	\$0	\$0
FTE/Other				
Total FTE	29	30	27	(3)
Authorized Capital Outlay	5,247,200	8,066,100		(8,066,100)
Retained Earnings	3,045,800	3,045,800	3,045,800	
Vehicles		1	1	

The recommended change in FTE is a result of transfer among ITS functional areas. Authorized Capital Outlay for FY 2002 is shown in each functional area respectively.

Purpose

ITS' Administration and Finance functional area provides direction, prepares budgets, develops rates, tracks finances, manages billing systems and contracts, performs technical writing, and produces the State directory for ITS. It includes the following activities:

- ▶ Director's Office
- ▶ Administration & Finance
- ▶ Accounting
- ▶ Budgets & Rates
- ▶ Internal Financial Systems
- ▶ Management Services
- ▶ Office Supplies & Miscellaneous

3.2 Network Services

Recommendation

The Analyst recommends FY 2002 revenue of \$10,152,700, expenses of \$10,571,100, and capital outlay of \$1,738,000 for Network Services. The Analyst also recommends forty full time equivalent (FTE) positions for this function, an increase of three FTE from FY 2001 Authorized.

	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits - Intragovernmental Re	10,077,700	10,117,700	10,152,700	35,000
Total	<u>\$10,077,700</u>	<u>\$10,117,700</u>	<u>\$10,152,700</u>	<u>\$35,000</u>
Expenditures				
Personal Services	2,636,300	2,987,900	2,989,500	1,600
In-State Travel	5,500			
Out of State Travel	(200)			
Current Expense	4,888,900	4,888,100	4,888,400	300
DP Current Expense	1,574,800	1,918,800	1,918,800	
DP Capital Outlay	1,497,500	1,738,300	2,077,000	338,700
Other Charges/Pass Thru	(136,300)	(1,010,300)	(1,302,600)	(292,300)
Total	<u>\$10,466,500</u>	<u>\$10,522,800</u>	<u>\$10,571,100</u>	<u>\$48,300</u>
Net Operating Income	<u>(\$388,800)</u>	<u>(\$405,100)</u>	<u>(\$418,400)</u>	<u>(\$13,300)</u>
FTE/Other				
Total FTE	34	37	40	3
Authorized Capital Outlay			1,738,000	1,738,000
Retained Earnings	(548,800)	(953,900)	(1,372,300)	(418,400)

The recommended change in FTE is a result of transfer among ITS functional areas.

Purpose

The Network Services functional area performs wide area network design, installation, and maintenance; mainframe network support; local area network support; e-mail services; wiring design; systems drawing and site floor planning; PC hardware and software installation and support; and high-speed circuit/satellite leasing. It includes the following cost centers:

- ▶ Data Communications Administration
- ▶ External LAN Support
- ▶ ISDN
- ▶ Radio/Microwave Sites
- ▶ TOC Network Control Center
- ▶ UNIX
- ▶ Wide Area Network
- ▶ Network Wire

Intent Language

The *Annual Appropriations Act* for FY 2001 (Senate Bill 1, 2000 General Session) includes the following intent language at page 28, Item 68:

It is the intent of the Legislature that the Department of Administrative Services Division of Information Technology Services, under the direction of the Internal Service Fund Rate Committee, compare full-cost-recovery rates for the External LAN Support and Radio/Microwave Sites cost centers with rates for similar private sector activities. It is further the intent of the Legislature that the Rate Committee review the findings of any such comparison with the Office of the Legislative Fiscal Analyst prior to any future Internal Service Fund rate hearing.

The External LAN Support cost center provides local area network service to other state agencies in lieu of full-time “in-house” LAN Administrators.

Disproportionate overhead costs assigned to External LAN Support

On June 12, 2000, the Division of Information Technology Services presented to the Legislative Fiscal Analyst its review of full cost recovery rates for the External LAN Support cost centers. It determined that the Division’s cost allocation model assigned a disproportionate share of certain overhead costs to the External LAN Support cost center. Based on its study, the Division reduced these overhead costs from \$400,000 to \$140,000 annually, such that External LAN Support cost center would nearly break even in FY 2000.

ITS did not, however, present a comparison of its rates with rates for similar private sector activities. The Analyst continues to believe that certain ITS rates do not accurately reflect the fully loaded cost of doing business, and therefore ITS rates do not send accurate price signals to customers. Further, as discussed in Section 3.0, the Analyst believes that ITS customers have little incentive to dispute ITS rates or create downward pressure on ITS operating costs.

3.3 Telephone Services

Recommendation

The Analyst recommends FY 2002 revenues of \$16,380,100, expenses of \$16,063,200, and capital outlay of \$639,800 for Telephone Services. The Analyst also recommends forty-three full time equivalent (FTE) positions for this functional area.

	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits - Intragovernmental Re	17,114,500	16,539,300	16,380,100	(159,200)
Transfers	15,000			
Total	<u>\$17,129,500</u>	<u>\$16,539,300</u>	<u>\$16,380,100</u>	<u>(\$159,200)</u>
Expenditures				
Personal Services	2,392,200	2,571,300	2,573,800	2,500
In-State Travel	8,500			
Out of State Travel	17,200			
Current Expense	10,859,100	10,870,700	10,977,400	106,700
DP Current Expense	374,600	300,200	39,500	(260,700)
DP Capital Outlay	1,584,800	1,206,000	973,200	(232,800)
Other Charges/Pass Thru	2,128,100	1,923,600	1,499,300	(424,300)
Total	<u>\$17,364,500</u>	<u>\$16,871,800</u>	<u>\$16,063,200</u>	<u>(\$808,600)</u>
Net Operating Income	<u>(\$235,000)</u>	<u>(\$332,500)</u>	<u>\$316,900</u>	<u>\$649,400</u>
FTE/Other				
Total FTE	38	43	43	
Authorized Capital Outlay			639,800	639,800
Retained Earnings	(1,271,000)	(1,603,500)	(1,286,600)	316,900
Vehicles		14	14	

Purpose

This functional area provides customer consulting for telephones, switches, and other voice services; telephone switch design and configuration; as well as analysis and planning for voice facilities. It includes the following cost centers:

- ▶ Auto Attendant
- ▶ Call Management Systems
- ▶ Cellular Hardware
- ▶ Cellular Usage
- ▶ Directory Services
- ▶ FCC Frequency Sales
- ▶ In-Wats
- ▶ Interactive Voice Response
- ▶ Interstate Long Distance
- ▶ Intrastate Long Distance
- ▶ International Long Distance
- ▶ Network Voice
- ▶ Pagers
- ▶ Personal Communications Systems (PCS)
- ▶ Universal Rate
- ▶ Voice/Data Circuits
- ▶ Voice Common

- ▶ Voice Mail
- ▶ Voice Maintenance
- ▶ Voice Station

3.4 Radio Shop

Recommendation

The Analyst recommends FY 2002 revenue of \$2,034,800 and expenditures of \$2,127,800 for the Radio Shop. The Analyst also recommends seventeen full time equivalent (FTE) positions for this functional area.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits - Intragovernmental Re	2,034,800	2,034,800	2,034,800	
Total	\$2,034,800	\$2,034,800	\$2,034,800	\$0
Expenditures				
Personal Services	1,037,800	1,017,800	1,017,800	
In-State Travel	15,400			
Out of State Travel	7,000			
Current Expense	872,300	874,300	874,300	
DP Current Expense	20,000	2,100	2,100	
DP Capital Outlay	136,600	112,900	108,200	(4,700)
Other Charges/Pass Thru	267,200	215,700	125,400	(90,300)
Total	\$2,356,300	\$2,222,800	\$2,127,800	(\$95,000)
Net Operating Income	(\$321,500)	(\$188,000)	(\$93,000)	\$95,000
FTE/Other				
Total FTE	18	17	17	
Retained Earnings	(1,197,000)	(1,385,000)	(1,478,000)	(93,000)
Vehicles		13	13	

Purpose

This functional area provides maintenance of microwave and mobile radios; installation and maintenance of microwave towers, buildings, and power; support for Public Safety wireless communications and dispatch facilities; installation and support of radar guns, video cameras, sirens, and light bars. It includes the following cost centers:

- ▶ 800 MHz Radio
- ▶ Contracted Services
- ▶ Law Enforcement System
- ▶ Microwave Site Maintenance
- ▶ Microwave Maintenance
- ▶ Radio/Microwave Appropriation
- ▶ Radio Installs
- ▶ Radio Maintenance, Parts, etc.
- ▶ Radio Technician Service
- ▶ State Repeater System

Intent Language

The *Annual Appropriations Act* for FY 2001 (Senate Bill 1, 2000 General Session) includes the following intent language at page 28, Item 68:

It is the intent of the Legislature that the Department of Administrative Services Division of Information Technology Services, under the direction of the Internal Service Fund Rate Committee, compare full-cost-recovery rates for the External LAN Support and Radio/Microwave Sites cost centers with rates for similar private sector activities. It is further the intent of the Legislature that the Rate Committee review the findings of any such comparison with the Office of the Legislative Fiscal Analyst prior to any future Internal Service Fund rate hearing.

The Radio/Microwave Sites cost center reflects the expenses and limited revenues associated with operating and maintaining radio and microwave transmission and reception facilities. Many facilities are on mountaintops, and enable “long haul” transmission of voice and data. This cost center’s revenues are largely from rent paid by local and Federal entities for use of state owned sites.

Cost of radio and microwave sites should have been reflected in overhead of other cost centers

On June 12, 2000, the Division of Information Technology Services presented to the Legislative Fiscal Analyst its review of full cost recovery rates for the Radio/Microwave Sites cost center. It determined that the cost center is more accurately categorized as an overhead cost than a revenue generating function. It stated that “revenues in this cost center are almost a windfall, since the cost of maintaining a site is not contingent on having any revenues from other entities.” In other words, ITS believes these the expenses associated with these sites are an unavoidable cost of doing business.

As a result of its study, the Division eliminated Radio/Microwave Sites as a cost center, and distributed associated expenses to revenue generating activities that use the sites.

ITS did not present a comparison of its rates with rates for similar private sector activities, saying that such comparison did not apply as “there is not a rate established to recover the costs of the sites.”

As is demonstrated by the reallocation of radio/microwave site costs, the Analyst continues to believe that certain ITS rates do not accurately reflect the fully loaded cost of doing business, and therefore ITS rates do not send accurate price signals to customers. Further, as discussed in Section 3.0, the Analyst believes that ITS customers have little incentive to dispute ITS rates or create downward pressure on ITS operating costs.

3.5 Computing

Recommendation

The Analyst recommends FY 2002 revenue of \$18,031,600, expenses of \$17,450,700, and capital outlay of \$1,758,000 for Computing. The Analyst also recommends seventy-eight full time equivalent (FTE) positions for this functional area, a decrease of two FTE from FY 2001 Authorized.

	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits - Intragovernmental Re	18,775,900	18,128,900	18,031,600	(97,300)
Total	<u>\$18,775,900</u>	<u>\$18,128,900</u>	<u>\$18,031,600</u>	<u>(\$97,300)</u>
Expenditures				
Personal Services	5,507,300	5,434,600	5,434,800	200
In-State Travel	6,400			
Out of State Travel	64,800			
Current Expense	761,700	746,500	746,500	
DP Current Expense	4,829,100	4,716,300	4,842,600	126,300
DP Capital Outlay	2,415,300	2,550,100	2,380,100	(170,000)
Other Charges/Pass Thru	4,329,400	4,557,300	4,046,700	(510,600)
Total	<u>\$17,914,000</u>	<u>\$18,004,800</u>	<u>\$17,450,700</u>	<u>(\$554,100)</u>
Net Operating Income	<u>\$861,900</u>	<u>\$124,100</u>	<u>\$580,900</u>	<u>\$456,800</u>
FTE/Other				
Total FTE	95	80	78	(2)
Authorized Capital Outlay			1,758,000	1,758,000
Retained Earnings	16,080,200	16,204,300	16,785,200	580,900

The recommended change in FTE is a result of transfer among ITS functional areas.

Purpose

The Computing functional area provides mainframe computing, disk storage, tape storage and vault services, microfiche services, customer consulting for special forms design, job scheduling, Capitol operators, customer service/help desk, ITS order desk, and statewide network monitoring. It includes the following cost centers:

- ▶ CICS
- ▶ CIMS
- ▶ Computing - Mainframe
- ▶ COTS Consulting
- ▶ Database Administration
- ▶ Disk Storage
- ▶ Operations Administration
- ▶ Operations Support
- ▶ Print Local
- ▶ Production Support
- ▶ Reports
- ▶ Security
- ▶ Software Management and Support
- ▶ Software Support Administration
- ▶ Tape Storage

Intent Language

The *Annual Appropriations Act* for FY 2001 (Senate Bill 1, 2000 General Session) includes the following intent language at page 28, Item 68:

It is the intent of the Legislature that the Department of Administrative Services Division of Information Technology Services (ITS) investigate rates for the Disk Storage and Mainframe Computing cost centers that more closely reflect the actual costs of services provided by those cost centers. It is further the intent of the Legislature that the Rate Committee review the findings of any such study with the Office of the Legislative Fiscal Analyst prior to any future Internal Service Fund rate hearing.

On June 12, 2000, prior to rate hearings, the Division presented to the Legislative Fiscal Analyst the results of its investigation. It proposed, and the Rate Committee approved, a reduction in disk storage (“DASD”) rates from eighty to seventy cents per megabyte. ITS determined that its mainframe computing rates did not require adjustment at that time.

The Analyst continues to believe that certain ITS rates do not accurately reflect the fully loaded cost of doing business, and therefore ITS rates do not send accurate price signals to customers. Further, as discussed in Section 3.0, the Analyst believes that ITS customers have little incentive to dispute ITS rates or create downward pressure on ITS operating costs.

3.6 Support Services

Recommendation

The Analyst recommends FY 2002 revenue of \$4,374,000, expenses of \$4,401,400, and capital outlay of \$260,000 for Support Services. The Analyst also recommends thirty full time equivalent (FTE) positions for this functional area, an increase of five and one-half FTE from FY 2001 Authorized.

	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits - Intragovernmental Re	3,648,400	4,292,100	4,374,000	81,900
Transfers		23,700		(23,700)
Total	<u>\$3,648,400</u>	<u>\$4,315,800</u>	<u>\$4,374,000</u>	<u>\$58,200</u>
Expenditures				
Personal Services	1,715,100	2,146,400	2,148,000	1,600
In-State Travel	600			
Out of State Travel	11,300			
Current Expense	1,959,600	2,011,200	1,988,600	(22,600)
DP Current Expense	1,590,000	1,928,300	1,948,300	20,000
DP Capital Outlay	184,600	395,700	593,600	197,900
Other Charges/Pass Thru	(1,711,900)	(2,066,700)	(2,277,100)	(210,400)
Total	<u>\$3,749,300</u>	<u>\$4,414,900</u>	<u>\$4,401,400</u>	<u>(\$13,500)</u>
Net Operating Income	<u>(\$100,900)</u>	<u>(\$99,100)</u>	<u>(\$27,400)</u>	<u>\$71,700</u>
FTE/Other				
Total FTE	16	25	30	6
Authorized Capital Outlay			260,000	260,000
Retained Earnings	349,700	250,600	223,200	(27,400)

The recommended change in FTE is a result of transfer among ITS functional areas, as well as a requested increase of one FTE.

Purpose

Support Services provides equipment maintenance, the ITS training center, maintenance of master license agreements, support for the Ogden and Provo regional centers, and Y2K testing. It includes the following cost centers:

- ▶ Equipment Maintenance
- ▶ Ogden Regional Center Administration
- ▶ Ogden Regional Center Operations
- ▶ Provo Regional Center Administration
- ▶ Provo Regional Center Operations
- ▶ Software and Document Library
- ▶ Technology 2000
- ▶ Training
- ▶ Year 2000

3.7 New Technologies

Recommendation

The Analyst recommends FY 2002 revenue of \$224,800 and expenses of \$585,200 for New Technologies. The Analyst recommends no capital outlay for this functional area, as discussed below.

	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits - Intragovernmental Re	224,800	224,800	224,800	
Total	<u>\$224,800</u>	<u>\$224,800</u>	<u>\$224,800</u>	<u>\$0</u>
Expenditures				
Current Expense	278,900	278,900	278,900	
DP Current Expense	38,300	38,300	38,300	
DP Capital Outlay	109,000	143,000	159,800	16,800
Other Charges/Pass Thru	141,800	136,300	108,200	(28,100)
Total	<u>\$568,000</u>	<u>\$596,500</u>	<u>\$585,200</u>	<u>(\$11,300)</u>
Net Operating Income	<u>(\$343,200)</u>	<u>(\$371,700)</u>	<u>(\$360,400)</u>	<u>\$11,300</u>
FTE/Other				
Retained Earnings	(360,800)	(732,500)	(1,092,900)	(360,400)

Purpose

ITS' service development account, New Technologies, tests cutting-edge applications before they are offered statewide. As technologies become available for statewide use, these activities will migrate into one of the above ITS functional areas. Currently, this account includes the following cost center:

► Video Conferencing

ITS has offered video conferencing as a service to its customers since FY 2000. It links two types of video conferencing sites – shared “consortium” sites to which access is open, and proprietary sites, like those at prisons, to which access is limited. ITS charges \$30 per hour to link sites with its video conferencing bridge.

Fourteen state owned consortium sites currently operate on the video conferencing network. Three of them are owned by ITS, the remainder owned and operated by the Department of Human Services, Department of Health, and local health departments. Five additional sites are expected to come on-line in the future. Three Utah Telehealth Network sites also uses ITS' network.

*Video conferencing
network utilization
only 2%*

Given the number of sites available for use, it is surprising that only 2% of available network time is utilized. This compares with nearly 100% utilization of the EdNet videoconferencing network during work hours.

Since its inception in FY 1999, the Video Conferencing cost center has failed to recover its cost. It will, according to ITS estimates, accumulate over \$1 million in losses by the end of FY 2002. ITS claims utilization of the service will triple in the next year. Still, that only results in 6% utilization.

The Analyst is concerned that, given its cool reception over the past two years, and the advent of acceptable personal computer based teleconferencing, the ITS Video Conferencing cost center may be a losing venture. The Analyst recommends that ITS defer any planned capital infrastructure upgrades for Video Conferencing until the service begins to break even. Thus, the Analyst recommends no authorized capital outlay in FY 2002.

3.8 Automated Geographic Reference Center

Recommendation

The Analyst recommends FY 2002 revenue of \$1,471,200, expenses of \$1,771,300, and capital outlay of \$88,000 for the Automated Geographic Reference Center. The Analyst also recommends eight full time equivalent (FTE) positions for this functional area, a decrease of three FTE from FY 2001 Authorized.

Should additional General Funds become available, the Analyst would recommend that this program be treated as an appropriated line item for budgetary purposes.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Federal Funds	150,000	150,000	750,000	600,000
Dedicated Credits - Intragovernmental Re	368,300	444,600	344,600	(100,000)
Transfers	376,600	1,176,600	376,600	(800,000)
Total	\$894,900	\$1,771,200	\$1,471,200	(\$300,000)
Expenditures				
Personal Services	625,500	746,700	746,700	
In-State Travel	11,000			
Out of State Travel	17,200			
Current Expense	58,600	58,600	58,700	100
DP Current Expense	758,600	1,161,700	868,500	(293,200)
DP Capital Outlay	41,100	49,000	56,200	7,200
Other Charges/Pass Thru	70,600	55,200	41,200	(14,000)
Total	\$1,582,600	\$2,071,200	\$1,771,300	(\$299,900)
Net Operating Income	(\$687,700)	(\$300,000)	(\$300,100)	(\$100)
FTE/Other				
Total FTE	7	11	8	(3)
Authorized Capital Outlay			88,000	88,000
Retained Earnings	(311,300)	(611,300)	(911,400)	(300,100)

Purpose

The Automated Geographic Reference Center (AGRC) was formally created as an operating unit of the Division of Information Technology Services (ITS) by the *Recodification of Department of Administrative Services* act (House Bill 88, 1993 General Session, Section 63A-6-202 Utah Code Annotated). It is mandated to provide geographic information system services to State agencies, the federal government, municipalities, and private persons through utilizing a standardized and integrated State Geographic Information Database (SGID). The Center has received a direct appropriation since 1984, but is authorized, through ITS, to set fees for its services.

Geographic information is useful in a number of government applications, including natural resource management, infrastructure development and maintenance, and the establishment of political boundaries. It is also valuable in the private sector for activities such as commercial and residential development, marketing, and delivery/distribution.

A Geographic Information System (GIS) uses computers to integrate like geographic information “horizontally” across large areas – in the case of the AGRC, across the State of Utah. GIS also integrates data “vertically” allowing users to cross-reference multiple sets of data for a given geographic region – for instance, allowing a user to easily identify the roads, hospitals, convenience stores, and elected officials for his or her neighborhood. The integration of geographic information increases its value exponentially.

The AGRC continues to collect and integrate geographic information from numerous sources into a common GIS, the State Geographic Information Database. SGID is available on-line at <http://www.its.state.ut.us/agrc/>.

Intent Language

The Legislature included the following intent language in the *Annual Appropriations Act* (Senate Bill 1, 2000 General Session), page 29, Item 68:

It is the intent of the Legislature that, for the Fiscal Year ending June 30, 2001 only, the Department of Administrative Services Division of Information Technology Services use \$300,000 from operating revenues to fund acquisition and integration activities of the Automated Geographic Reference Center.

Current operations subsidized by other ITS functions

According to its budget submission, the Division of Information Technology Services intends to provide \$300,000 in revenue from other activities to cover AGRC ongoing operational costs. AGRC’s retained earnings will dip below (\$600,000), wholly offset by positive retained earnings in other parts of ITS.

The Legislature also included this intent language in Item 68:

It is the intent of the Legislature that the Department of Administrative Services, Division of Information Technology Services prepare a report analyzing funding options for the Automated Geographic Reference Center (UCA 63A-6-202) and the State Geographic Information Database (UCA 63A-6-203). This analysis should include information on elimination of General Fund appropriation, rate increases necessary to cover base funding requirements, impacted services to customers, and effects on State obligations and opportunities. The Department shall report findings to the Executive Appropriations Committee and the Information Technology Commission before September 1, 2000.

AGRC presented its report to the Information Technology Commission on August 17, 2000 and in writing to the Executive Appropriations Committee. It found that charging AGRC users for data would cost more in reciprocal charges than it earned, and that charging for additional value added services would cause anti-competition problems.

*State's return on
AGRC investment an
order of magnitude*

AGRC noted that it currently trades data with local entities and the Federal government on a barter basis or for a reduced fee. Through such reciprocal arrangements, AGRC reported it received more than \$2.2 million worth of Ortho Quarter Quads and Digital Line Graphs for less than \$280,000. – a nearly ten-fold return on investment. AGRC fears that charging its partners for data would jeopardize these benefits.

AGRC further noted that it did not include the sale of value added services in its mission and feared that such sale would directly compete with private sector GIS companies and engineering firms.

In light of AGRC's report, and recognizing the value of spatial data to the state and its citizens, the Analyst agrees that AGRC's operations should be fully funded through existing dedicated credit revenues and the General Fund.

Given a change in status from an Internal Service Fund to an appropriated line item, the Analyst further believes that AGRC's personal service funding should be subject to greater scrutiny, as are the personal service costs of all other appropriated entities. Such scrutiny would include a reduction of as much as (\$183,900) in turn-over savings as well as a cut of (\$12,400) due to lower retirement rates.

4.0 Additional Information

4.1 Funding History

	1998	1999	2000	2001	2002
Financing	Actual	Actual	Actual	Estimated	Analyst
Federal Funds	207,100		150,000	150,000	750,000
Dedicated Credits - Intragovernmental Re	57,267,200	59,754,900	52,244,400	51,782,200	51,542,600
Transfers	521,900	1,341,600	391,600	1,200,300	376,600
Total	\$57,996,200	\$61,096,500	\$52,786,000	\$53,132,500	\$52,669,200
Programs					
ISF - Network Services	9,578,100	9,730,000	10,077,700	10,117,700	10,152,700
ISF - Telephone Services	19,689,900	19,276,800	17,129,500	16,539,300	16,380,100
ISF - Radio Shop	2,463,500	1,950,200	2,034,800	2,034,800	2,034,800
ISF - Computing	20,823,900	24,651,600	18,775,900	18,128,900	18,031,600
ISF - ITS Support Services	4,145,900	3,911,500	3,648,400	4,315,800	4,374,000
ISF - New Technologies	46,700	101,800	224,800	224,800	224,800
ISF - Automated Geographic Ref Ctr	1,248,200	1,474,600	894,900	1,771,200	1,471,200
Total	\$57,996,200	\$61,096,500	\$52,786,000	\$53,132,500	\$52,669,200
Expenditures					
Personal Services	14,173,600	14,838,700	15,459,000	15,975,700	15,983,200
In-State Travel	47,800	55,000	49,000	49,000	49,000
Out of State Travel	152,600	139,000	123,600	131,500	131,500
Current Expense	24,150,900	20,898,700	20,009,800	19,974,200	20,058,700
DP Current Expense	6,614,800	7,629,800	9,389,400	10,211,400	9,803,800
DP Capital Outlay	8,666,000	7,040,600	5,986,400	6,202,900	6,353,100
Other Charges/Pass Thru		729,000	2,984,000	2,160,100	591,400
Total	\$53,805,700	\$51,330,800	\$54,001,200	\$54,704,800	\$52,970,700
Net Operating Income	\$4,190,500	\$9,765,700	(\$1,215,200)	(\$1,572,300)	(\$301,500)
FTE/Other					
Total FTE	237	237	237	242	243
Authorized Capital Outlay	3,968,578	5,567,672	5,247,200	8,066,100	4,483,800
Retained Earnings	7,236,300	17,002,000	15,786,800	14,214,500	13,913,000
Vehicles				28	28